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A Retirement Income Store

UNDERSTANDING SOCIAL SECURITY BENEFITS

THERE ARE WAYS TO MAXIMIZE YOUR BENEFITS AND GET THE VERY MOST TO WHICH YOU ARE ENTITLED.

Understanding Social Security Benefits

Before you can retire, you should know what all of your sources of income are going to be and how much you can expect to receive from each. Social Security benefits will be one of those sources, but how much you can expect to receive depends on a variety of factors. There are ways to maximize your benefits and get the very most to which you are entitled, and there are strategies to minimize your tax burden from Social Security. The most important thing you need to consider in working toward those goals, however, is whether your Social Security benefits are coordinated properly with your other assets and sources of income.

Let's start with some basic facts about social security:

It's money you can't outlive – Social Security is one of the few sources of income you can't outlive. Once you start taking them, your benefits continue until your death, and the longer you live, the more you will extract from the system. If your benefit starts at $2,000 per month, and you live 10 more years, you will receive over $300,000 in lifetime benefits. If you live 30 more years, you'll receive over $1 million over your lifetime, assuming annual cost-of-living adjustments of 2.8%. That's good news because retirees are living longer and longer. Today, there is a 50% chance that the average 65- year-old American will live into his late 80s. For the average couple aged 65, there is a 50% chance that at least one spouse would live to age 92.

The system is solvent – You probably know there have been questions in recent years about the solvency of Social Security. That concern stems in part from the fact that people are living longer, which means that the Social Security Administration is paying out benefits longer than they had to in the past. Another problem is that when Social Security started, there were approximately 40 people working and paying into the system for every 1 retiree. As of today, there are only 2.8 people working and paying into the system for every 1 person taking benefits. Nevertheless, statistics directly from OASDI say that we will not deplete our current trust fund until the year 2033. If that happens, and no changes are made to the system between now and then, it will require a 23% decrease in everyone's Social Security benefits after 2033. However, if amendments are successfully instituted, benefit decreases may not be required in the future. The bottom line is that you should be able to depend on your Social Security benefits for a long time.

Your benefit depends on two primary factors – When your Social Security benefit is calculated, it will be based primarily on two things: the age at which you apply for benefits and how much you earned over the course of your working career.

1. Your earnings – Social Security looks at annual earnings throughout your lifetime, indexes them for inflation, and picks the 35 highest years' earnings to include in the calculation formula. The earnings are totaled and divided by 35 to come up with an average. If you don't have 35 years of earnings, the missing years are considered zeroes.

2. Your age – Most people know that you can take Social Security benefits anywhere between age 62 and age 70. Depending on when you were born, the "normal retirement age" falls somewhere between 66 and 67. That is the age at which you are eligible to receive full benefits, also known as the "primary insurance amount," or PIA. If you take your benefits earlier, you will get a reduction – potentially as high as 30% – of what you would have gotten by waiting until normal retirement age. Conversely, every year that you delay taking Social Security, you get an 8% increase per year in the benefits, topping out at age 70.

Resources

Based on the factors above, you can do some calculating on your own and determine approximately how much you can expect to receive from Social Security by taking advantage of a couple of different resources:

- Access your Social Security statement at https://www.ssa.gov/myaccount/.

- Use the secure Retirement Estimator at https://www.ssa.gov/benefits/retirement/estimator.html, which gives you your earnings history after you enter some personal data.

- Or you can use one of the three calculators available on the Social Security website at https://www.ssa.gov/planners/calculators/.

Spousal Benefits

The spousal benefit is 50% of the worker's PIA if the spouse applies at full retirement age. For example, if Joe's PIA is $2,000 and his wife Mary's is $800, if Mary applies for Social Security at her full retirement age, her benefit will be $1,000. That's 50% of Joe's benefit, and $200 more than Mary's benefit based on her own work record. Non-working or lower-income spouses are also eligible for a spousal benefit that might be higher than their own, and a surviving spouse may also be eligible for a higher benefit. In some cases, both of these benefits can also be applied to divorced spouses.

Survivor Benefits

Survivor benefits can be complicated, but you need to understand them because your current decisions will influence the amount of survivor benefits in the future. The two basic factors that influence the amount are: 1) the age at which the deceased spouse first claimed their own retirement benefit (if they applied before full retirement age, the benefit will be lower), and 2) the age at which the surviving spouse claims the survivor benefit.

Maximizing Benefits

The following are four steps you can take before you apply for Social Security to ensure you will maximize your benefits.

1. **Improve your earnings record –** Examine your earnings record from your latest Social Security statement online at www.ssa.gov/myaccount to determine if it'accurate if there are any missing years, and if you can improve it by working longer.

2. **Apply at the optimal time –** The decision of when to apply for benefits is often complicated but critically important; it can make a difference of thousands of dollars over your lifetime.

3. **Coordinate spousal benefits –** The goal is to maximize income for both of you while you're both alive and maximize income for the survivor after one of you dies.

4. **Minimize taxation on your benefits –** There are several strategies for doing this, including reducing other income with tax-advantaged investments, anticipating IRA RMDs (which could put you in a higher tax bracket and subject Social Security benefits to taxation), converting a traditional IRA to a Roth IRA, delaying Social Security (which reduces the number of years benefits are subject to tax), reducing your expenses & paying down debt, and continuing to manage taxes throughout retirement.

Coordinate Social Security with your overall retirement income plan. Most people agree that Social Security is not enough to live on in retirement and that they need to supplement it with other sources of income. Making sure those other income sources are allocated correctly and aligned properly with your benefits is the single most important factor for maximizing Social Security benefits.

Clearly, there are many factors to consider in determining when and how you take your Social Security benefits — factors having to do with health, your life expectancy, your need for income, whether or not you're working, and the needs of a surviving spouse. Combine your individual decision with the decision of when it is best for your spouse to retire, and suddenly, you are faced with hundreds of combinations that could affect the quality of your life in your retirement years.

We have software that allows us to input your personal data and find out specifically how to get the maximum amount you're entitled to out of Social Security. It's common that when we line up the different approaches, the difference between the number one best method and the number two best method could amount to more than $100,000 of cumulative benefit over the course of your lifetime.

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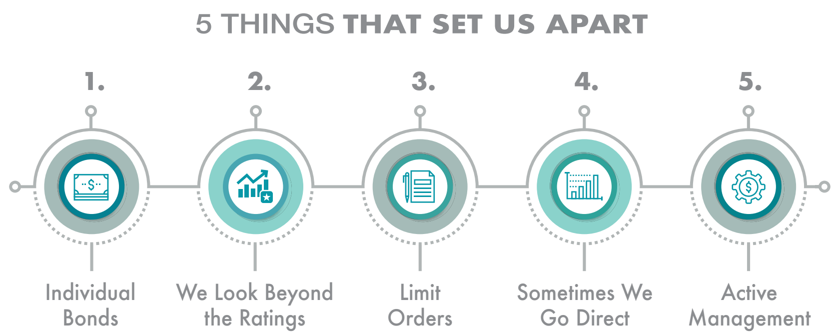
5 Things that Set Our Income Specialists Apart

In the financial services industry, financial advisors will typically specialize in either the stock market or the bond market, but seldom both. If an advisor says they can help you with fixed income investing, most will take the easy way out and invest your money in bond mutual funds.

The problem is that bond funds tend to have risks and tax implications that can be significantly reduced by investing in an actively managed portfolio of individual bonds. That brings us to the first thing that sets the Income Specialists at Sound Income Strategies and The Retirement Income Store® apart from the typical stock market-based financial advisor.



1. Income Specialists Invest Client Money in Individual Bonds, Not Bond Mutual Funds

Our Income Specialists possess the specialized training and knowledge required to create customized portfolios of individual fixed income securities, such as bonds and bond-like instruments. When you buy an individual bond, you have a guarantee that you'll get a fixed rate of interest for the life of the bond, and when the bond matures, you're guaranteed to get the face value of the bond back at maturity—assuming no defaults. With bond mutual funds, neither guarantee exists.

2. Income Specialists Look Beyond the Ratings

We learned during the Financial Crisis of 2007-2009 that all those AAA-rated mortgage bonds that were about to default had ratings attached to them that were far too generous. Income Specialists know they need to look beyond these ratings to research the actual financials and management of the issuers themselves.

3. Income Specialists Use Limit Orders

Most advisors will purchase fixed income securities using market orders and will end up buying those securities at prevailing market prices for that day. Our Income Specialists use limit orders when buying fixed income securities on their clients' behalf. That way, if the prices of those securities happen to be up that day, we can be sure our clients don't overpay.

4. Income Specialists Go Directly to Buyers And Sellers to Negotiate The Best Prices

Our Income Specialists are committed to conducting the research required to find out who is buying and selling various fixed income securities at any given time. That way, our traders can go directly to the buyer or seller and negotiate a better price for our clients.

5. Income Specialists take an Active Management Approach

Our active management of individual fixed income securities allows our portfolio managers to continually identify and act upon opportunities to maximize returns for our clients. Our active management approach allows us to take advantage of market dislocations and other short-term developments in order to capitalize on opportunities to upgrade, or swap, for higher yields or capital gains for our clients.

While most Registered Investment Advisory firms take shortcuts to simplify their efforts, our management team is diligent in their research. We seek to build customized portfolios of individual fixed income securities that fit the individual needs of each client. In other words, we concentrate on helping you look forward to retirement with a greater sense of security than most typical stock marked-based plans can offer.

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